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Project: **IP-110**

OFFICE OF REPORTS AND ESTIMATES

Project Initiation Memorandum

Date: **5 May 1950**

To: **D/E**

From: Publications Division, Projects Planning

Subject: **Reexport of strategic commodities from Latin America**

Statement of Project:

Origin: **Internal (K-1388)**

Problem: **To furnish information on the subject above.**

Scope:

Note: This confirms your delivery of this project this date.
The possibility of a coordinated study on this subject
will be explored at a later date.

Graphics (if any):

Form: **None (orig & 2)**

Draft due in D/Pub: **5 May 50 (Received)**

Responsible Division: **D/E**

Dissemination deadline
(if any)
5 May 1950 (Delivered)

Internal Coordination: **D/LA**

Departmental Responsibilities: **None**

Classification to be no higher than: **Secret**

Recommended Dissemination: **Requester only**

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copy to D/E/

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Project: P-110

OFFICE OF REPORTS AND ESTIMATES

Project Initiation Memorandum

25X1A

Date: 5 May 50

To: D/Ec

From: Publications Division, Projects Planning

Subject: Reexport of strategic commodities from Latin America

Statement of Project:

Origin: Internal (K-1388)

Problem: To furnish information on the subject above.

Scope:

Note: This confirms your delivery of this project this date. The possibility of a coordinated study on this subject will be explored at a later date.

Graphics (if any):

Form: Memo (orig + 2)

Draft due in D/Pub: 5 May 50 (Received)

Responsible Division: D/Ec

Dissemination deadline
(if any)

5 May 50

(Delivered)

Internal Coordination: D/LA

Departmental Responsibilities: None

Classification to be no higher than: Secret

Recommended Dissemination: Requester only

1. Latin America - For trade.
2. East - West trade

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14 April 1950

MEMORANDUM FOR: D/Pub, ORE

ATTENTION : Mr. [REDACTED] 25X1A

SUBJECT : Request for Information re Re-exports of
Strategic Commodities from Latin American

REFERENCE : Our Case #K-1388

25X1A

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1. In a recent discussion with Mr. [REDACTED] Mr. [REDACTED] of this office was informed that various agencies of the government are maintaining records on strategic commodities exported from the United States to Latin America and then re-exported to Europe.

2. This office is particularly interested in information of this type, and especially that which would indicate the U.S. shippers, the Latin American consignee and the European consignee.

3. It has occurred to us that a coordinated study of this type of activity might prove to be of great value not only to OPC but to other elements of the government. Such a study might also include information on purchases in Latin America made by Russia and the satellites or their front organizations.

4. It is requested that your office explore the possibilities of ORE's initiating such a study and indicate to this office the results of such inquiries.

25X1A

5. Mr. [REDACTED] extension 2710, may be called upon for additional information if necessary.

25X1A

Acting Chief, Intelligence Support

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ROUTING AND RECORD SHEET

INSTRUCTIONS: Officer designations should be used in the "To" column. Under each comment a line should be drawn across sheet and each comment numbered to correspond with the number in the "To" column. Each officer should initial (Check mark Insufficient) before further routing. This Record and Routing Sheet should be returned to Registry.

FROM: ISB 14 April 1950

NO.

DATE

5-22286

17 Apr.

TO	ROOM NO.	DATE		OFFICER'S INITIALS	COMMENTS
		REC'D	FWD'D		
1. D/Pub. ORE Mr. [REDACTED]	2318 "M"				cc to D/E. 18 Apr. for consid.
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Note: The classification of this memorandum must be raised to conform to the classification of the draft it covers.

Date 4 May 1950

MEMORANDUM FOR CHIEF, PUBLICATIONS DIVISION

SUBJECT: Transmission of Draft Report *18 110*

ENCLOSURE: Re-exports of Strategic Commodities from Latin America

(3 copies)

1. Enclosure is forwarded herewith for review and, if required, for formal coordination with the departmental intelligence organizations.

2. This draft report has ^{not} been coordinated informally with the organizations checked below:

Within CIA:

D/GI	<input type="checkbox"/>	D/NO	<input type="checkbox"/>
D/In	<input type="checkbox"/>	D/LA	<input type="checkbox"/>
D/Tr	<input type="checkbox"/>	D/WE	<input type="checkbox"/>
D/EE	<input type="checkbox"/>	D/Ma	<input type="checkbox"/>
D/FE	<input type="checkbox"/>	D/EC	<input type="checkbox"/>
D/NE	<input type="checkbox"/>	Other	<input type="checkbox"/>

Outside CIA:

State (OIR)	<input type="checkbox"/>
Army (ID/GSUSA)	<input type="checkbox"/>
Navy (ONI)	<input type="checkbox"/>
Air (AID)	<input type="checkbox"/>
Other	<input type="checkbox"/>

3. Maps and/or Graphics to be included in this report and arrangements completed for their production by the Map Division or the Presentation Staff are as follows:

4. Comments:

25X1A

Deputy Chief

Economics, ORE
Division

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D/Pub, ORR

1 May 1950

Economic Warfare Branch, D/Ec

Re-exports of Strategic Commodities from Latin America

Reference: Memorandum of 14 April 1950 from Acting Chief, Intelligence Support

Attention: Mr. Long

1. There is little evidence of transshipment or re-export of strategic commodities from the United States to Europe through Latin American countries. There is some evidence of attempted transshipments. Such instances as have come to the attention of this office are listed in Appendix 1.
2. Of greater significance at this time is the export of indigenous strategic materials from Latin American countries including notably copper, lead, zinc, tin, and industrial diamonds.
3. With regard to paragraph 4 of the reference, the Economic Warfare Branch of D/Ec is of the opinion that it is desirable to ascertain if any studies are in process, or are proposed within the Government, that deal with the economic aspects of Latin America's position in the cold war and in a possible future emergency. If not, this Branch is of the opinion that such a study should include an analysis of Latin American trade with Europe, the possibility of parallel action in export controls and of co-ordinated economic warfare measures in the event of war.
4. The present export licensing procedure, particularly as it affects shipments to Latin America, is discussed in Appendix 2.

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APPENDIX I

- A. This report of transshipments was made on the basis of the general categories found in the US 1A and 1B lists. There are no reports of transshipments in the following:

- Coal equipment
- Construction and conveying equipment
- Electric power apparatus
- Fibers
- Metal working machinery
- Precision instruments
- Rubber and rubber products
- Scientific equipment, precision instruments, etc.
- Steel mill products

Evidence available in the files of Economic Warfare Branch as to transshipments of strategic items via Latin America is indicated below.

1. CHEMICALS AND CHEMICAL EQUIPMENT

- a. State Despatch to Warsaw, No. 908, dated 20 December 1949. Individual named Zdzislaw Bronsky of Argentina reportedly in collaboration with Polish operator Antoni Jaroszewicz re transshipments. Latter connected with attempts to secure carbon black for shipment via Rotterdam or Antwerp to Czechoslovakian tire industry.

2. NON-PERSONAL METALS AND PRODUCTS

- a. [REDACTED] dated 9 June 1949: Guillermo Arinez Velasco, a Bolivian exile now located in Brazil reported to be smuggling industrial diamonds to Argentina to be turned over to Soviet Embassy for shipment.
- b. [REDACTED] dated 24 April 1949: David Luft reportedly was principal contact in Chile re attempts by Polish legation (Buenos Aires) officials to secure nitrates, copper, etc. These attempts were apparently unsuccessful except with respect to "neutral" country transshipments of copper.
- c. State Despatch to Montevideo, No. 198, dated 6 May 1949: CONTINEX of Uruguay had made preliminary arrangements to import graphite electrodes through Montevideo to EIK of Budapest, but were unsuccessful.
- d. State Despatch A-83, dated 21 July 49: Local rumors have been circulating in India to the effect that the Russians are purchasing mica in Brazil and Argentina, but investigation by US embassies discloses no substantiating evidence.
- e. There is unconfirmed evidence of transshipment of industrial

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diamonds from this country through Venezuela, but nothing to definitely substantiate the allegation.

- f. Shipments of copper, lead and zinc (indigenous production) form an important part of the export trade of several Latin American countries, and because of their strategic significance are here considered. There are numerous reports of shipments by Chile and Mexico of copper to Eastern European destinations via western European intermediaries. A report dated 17 March 1950 from the American Embassy (Mexico) indicates that although Cobre de Mexico asserts it has refused to supply electrolytic copper to the Soviet, the record shows that only modest diligence was exerted during 1949. Furthermore, the Embassy believes that Cobre will not be able to implement this alleged policy of non-sale to the Soviet; probable shipments in 1950 to Soviet destinations may total 5,000 tons as against 1949 deliveries of 4,600 tons.

3. MACHINERY AND INDUSTRIAL EQUIPMENT

- a. Since precision machinery (of the type desired by USSR) is not in great demand in Latin America, (developments in those countries requiring heavy construction equipment, drilling machinery, etc.), it is not believed that there have been transshipments in this line. Furthermore, such shipments could be easily detected because of their incongruous nature.

4. PETROLEUM PRODUCTS AND EQUIPMENT

- a. State Despatch No. 1066 dated 12 Dec. 1949: An unverified report emanating from a United States shipping company office indicates the transshipment of used drilling machinery from Venezuela to Trieste for Austria. Although the government keeps a close watch on imports of drilling machinery, it is possible that second-hand dealers might export certain quantities.
- b. There is an unconfirmed report of an attempted purchase in the United States of a considerable quantity of steel drums to be shipped to Caracas, there to be loaded with petroleum products (unspecified) for shipment to an unspecified destination, presumably China. There have also been indications of unusually large shipments from this country of tetra-ethyl lead to Mexico with the ultimate destination unverified.
- c. That there is small possibility of transshipments of petroleum equipment is indicated by a statement of the Creole Petroleum Corporation to the effect that every precaution will be exercised to preclude the possibility of the Soviet orbit ultimately acquiring excess equipment such as drill pipe, rigs, and tubing.

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5. TRANSPORTATION EQUIPMENT

- 25X1A a. [REDACTED] Source reports that 100 P & W R-2800 engines consigned to RAF, Trinidad, were re-stencilled to V.O. Technoportimport, Moscow.
- 25X1A b. [REDACTED] Aerovias Nacionales de Colombia, S.A. (AVIANCA) has been purchasing what is believed an abnormal number of tires capable of being used on planes of the DC-3 type, a number of which are in operation in certain countries. There is a presumption of transshipment.
- c. State Despatch to Bern No. 73, dated 18 Jan. 1960: FAMA, of Buenos Aires reportedly engaged in transaction whereby Czechoslovakia will receive 4-engine aircraft. Will be accomplished through intermediary named Ackermann located in Zurich where planes will be flown for transshipment.
- 25X1A d. [REDACTED] dated 25 March 1949: Unverified report of shipment from Italy to Buenos Aires of contraband for eventual transshipment to Odessa. Same despatch indicates purchase by Albert Boris Segal and Company (Italian) of surplus US army trucks from Italian government for shipment to Argentina for eventual shipment to USSR.
- 25X1A e. [REDACTED] dated 28 Oct. 1948: Purchase of 800-1000 surplus trucks by Hyman Michaels Co., Chicago, for shipment to British Guinea from whence they will be shipped to USSR.

6. Miscellaneous

- a. State Department Daily Summary, 3 Dec. 1948: It has been reported that the chief reason for Bulgarian interest in sending a trade mission to Argentina is the hope that Bulgaria could use Argentina as a channel to obtain US goods denied export licenses.
- b. CIA Memo dated 16 Nov. 1948: Hungary is making arrangements to set up a purchasing agency in Cuba. Same memo indicates that American manufacturers have been assured that Hungarian purchases could be routed through Holland and Belgium. The presumption is that Cuba is to be used for the same purpose.
- 25X1A c. [REDACTED] dated 26 May 1949: Indications that at port of La Guariara in Venezuela, freight is being transferred directly from US ships to foreign vessels. Presumably the laxity of controls in this port permits such transshipment without any customs control.
- It is believed that much US equipment ostensibly destined for Peru is being re-exported, primarily to Italy. This belief substantiated by fact that Peru is incapable of absorbing economically all the incoming material and because the sol-dollar relationship would not permit such a volume of US imports.

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- B. Contact with Commercial Intelligence Branch of the Department of Commerce fails to reveal any evidence in that office of substantial transshipments of strategic items through Latin America to the Soviet Bloc. One flagrant example, however, was the attempted shipment of carbon black from the United States via Mexico to the Soviet Bloc which resulted in the suspension of license privileges for two export firms. This report is reproduced below:

The Journal of Commerce, 7 February 1950

Export license privileges of two Mexican concerns, including their privileges of participating in shipments as either consignees or forwarders, have been suspended for violation of export control regulations, OIT announced.

After review...both firms were found to have taken part in an attempted shipment of carbon black from the U. S. to European countries without license through the subterfuge of shipping to Mexico and transshipping to Europe. Alexander H. Danon, who operates an importing company at Mexico City known as Distribuidora Exclusiva, A.A., was found to have purchased the carbon black in Texas, shipped it to Mexico under export declarations falsely naming himself as the ultimate consignee, and then resold it for shipment to Europe.

The suspension prevents Danon for a period of six months from being a party in the exportation of any commodities appearing on the OIT Positive List.

Also included was Leoncio Fernandez, etc.....

- C. Reference is made to State Circular Airgram of 12 January 1950, in which the Department of Commerce and State have expressed their concern over the transshipment of various commodities of U. S. origin through Latin American countries to Eastern Europe, as well as direct export of such commodities from Latin America. This airgram requested all U. S. missions in Latin America to comment on:

1. The possible effectiveness of,
 - a. Obtaining cooperation in the United States by American Corporations having subsidiary companies in Latin America producing or exporting strategic commodities.
 - b. Obtaining the control of exports of strategic commodities from Latin American countries by subsidiary companies of American firms by means of direct approach through the Foreign Service with the subsidiary company.
 - c. The establishment of effective parallel export controls, either formal or informal, by Latin American countries similar to those now under negotiation with certain Western European countries.

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2. The economic and political impact which the missions would foresee from the imposition of strict limitative control of copper, lead, and zinc to Eastern Europe.

The following replies in response to this airgram have now been received:

1. Argentina

Possibilities of transshipment are unlikely in view of this country's critical dollar position which has resulted in strict control over imports. Furthermore, all exports must be licensed and applications are closely scrutinized. Strategic materials produced in Argentina are either locally consumed or kept from the world market, as in the case of tungsten, by high production costs. Negotiation with parent companies in the United States having subsidiaries in Argentina would seem the most effective approach to the problem.

2. Bolivia

Direct negotiation with parent company in the United States, rather than direct approach to Bolivian subsidiary, is believed the best procedure. The establishment of effective export controls by the government is thought impracticable in view of the inefficiency and venality of the Bolivian bureaucracy. Although Bolivian production of copper, lead and zinc represents a small proportion of world production, establishment of markets for these products in the United States (expansion of stockpile purchases) is believed advisable to secure favorable Bolivian reaction to imposition of export controls.

3. Chile

Although transshipments are not significant, the export of copper, lead, and zinc are extremely essential to the economy of the country. However, since the bulk of the production is by U. S. subsidiaries, and since Eastern Europe is not such an important market that a satisfactory degree of cooperation on the part of the Chilean government could not be secured, effective control of the export of these commodities is believed practicable.

4. Costa Rica

Since no American corporations are known to have subsidiaries in this country, the only effective approach to the problem of transshipment would be the establishment of parallel export control. Geographical location, negligible domestic requirements, and irregular commerce with European destinations render improbable the use of Costa Rica as a transshipment point.

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5. Cuba

Insofar as known, no transshipments have been made through Cuba, and the embassy believes all Cuban exports of indicated materials are to the U. S.

6. Dominican Republic

There has never been any trade of consequence between the Dominican Republic and Eastern Europe, nor does the country produce any of the strategic commodities in question. The embassy believes that control through parent companies in the U. S. would be the most satisfactory method of control.

7. Ecuador.

Proposed steps would be effective since officials are in sympathy with anti-Russian steps deemed essential by the U. S. government, although there is no indication that the situation is especially applicable to Ecuador.

8. El Salvador

The production of strategic minerals in El Salvador is negligible, and in 1948, all went to the U. S.

9. Guatemala

Control through the parent company in the United States is considered the best approach. The establishment of general export controls is not considered advisable unless unity of action throughout Latin America could be achieved. It is emphasized that Guatemala is not an important exporter or importer of strategic materials.

10. Haiti

There is no transshipment of the only strategic material produced in this territory, namely, sisal.

11. Honduras

Possibility of transshipment through this country is doubtful; shipments of copper, lead and zinc either from or through Honduras are negligible. Establishment of general export controls is not advocated except upon concrete evidence of prejudicial shipments from Honduras.

12. Mexico

Transshipment from Mexico to Soviet Bloc destinations of strategic commodities appears to be negligible at the present time.

13. Nicaragua

This country neither produces nor exports copper, lead, or zinc. The embassy believes that an approach through parent companies in the U. S. would be the most effective means of control and that controls by Nicaragua would be indicated only as an extreme measure.

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14. Panama

The embassy is unaware of any corporation with subsidiaries in Panama producing or exporting commodities.

15. Paraguay

Transshipments through Paraguay are not considered of any importance for geographical reasons.

16. Peru

No special evidence of transshipment available at this time; embassy believes it would not be difficult to secure parallel export control if so desired.

17. Venezuela

There is no evidence at this time that strategic materials of the U. S. are being diverted from Venezuela to Eastern Europe.

18. Uruguay

Action through U. S. corporations is believed the most effective approach. It is pointed out that this country now has an effective export control system and that trade with Eastern Europe is negligible.

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APPENDIX II PRESENT EXPORT LICENSING PROCEDURE TOWARD LATIN AMERICA

1. All commodities for which a validated export license is required to any destination are found in what is known as the Positive List. For each commodity on the Positive List the "area of control" is designated as either "R" or "EO". The area "R" has been redefined to include all destinations outside the Western Hemisphere. All other areas, except Canada, fall within the "EO" category. Latin American countries, therefore, are now classed as "EO" destinations and are excluded from controls applying to "R" destinations.
2. For the purposes of administering export control, there have been developed the 1A (embargo) list, and the 1B (quantitative control) list. The area of control for all commodity categories containing 1A items is "EO" and therefore, licenses are required on 1A exports for all destinations except Canada. Control is exercised over such 1B items as can be easily transshipped and to non-security items the export of which is controlled for reasons of short supply in the United States. The remainder of the Positive List, that is, 1B items not easily transshipped, require licenses only to "R" destinations.

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